

## Message Text

UNCLASSIFIED

PAGE 01 NAIROB 04934 132005Z

61

ACTION AF-06

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 FEA-01 TAR-01

DODE-00 PA-02 PRS-01 /077 W

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R 131459Z JUN 75

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC 3410

INFO AMEMBASSY DAR ES SALAAM

UNCLAS NAIROBI 4934

E.O. 11652: N/A

TAGS: EFIN, KE

SUBJ: KENYAN BUDGET FY 76

1. SUMMARY: THE KENYAN BUDGET PRESENTED JUNE 12 IS DESIGNED TO ENSURE THAT OVERALL FALL IN REAL INCOME COUNTRY HAS SUFFERED IS BORNE BY PEOPLE MOST ABLE TO AFFORD IT AND TO REDUCE COUNTRY'S BALANCE OF PAYMENTS DEFICIT. PROPOSED EXPENDITURES AND NEW TAX PROPOSALS CLOSELY FOLLOW ECONOMIC STRATEGY OUTLINED IN SESSIONAL PAPER NO. 4 (SEE NAIROBI A-59, MAY 16). FOR FY 76 (JULY 1, 1975 TO JUNE 30, 1976) ESTIMATED REVENUE WILL BE SHILLING EQUIVALENT OF \$1,009 MILLION AND ESTIMATED EXPENDITURE WILL BE \$1,057 MILLION. NEW TAX MEASURES WILL CONTRIBUTE \$49 MILLION TO REVENUE. EXTERNAL FINANCING FOR DEVELOPMENT ACCOUNT PROJECTED TO INCREASE FROM \$84 MILLION RECEIVED IN FY 75 TO \$193 MILLION IN FY 76. PROJECTED BUDGET DEFICIT OF \$48 MILLION WILL BE FINANCED BY LOCAL BORROWING. END SUMMARY.

2. COMPARISON OF FY 75 AND FY 76 BUDGETS:

FY 75	FY 76	PERCENT CHANGE
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PAGE 02 NAIROB 04934 132005Z

RECURRENT ACCOUNT

REVENUE	680.4	764.4	12.3
EXPENDITURE	579.6	658.7	13.6
SUPLUS	100.8	105.7	4.9

DEVELOPMENT ACCOUNT

REVENUE	135.8	244.7	80.2
EXPENDITURE	260.6	398.0	52.3
DEFICIT	124.8	153.2	22.8

TOTAL BUDGET

RECURRENT SURPLUS	100.8	105.7	4.9
DEVELOPMENT DEFICIT	124.8	153.2	22.8
OVERALL DEFICIT	24.0	47.5	97.9

3. FY 75 FIGURES ABOVE APPROPRIATED EXPENDITURES;

FY 76 FIGURES ARE BUDGET REQUEST.

4. MAJOR CHANGES IN FY 76 REQUEST FROM FY 75

APPROPRIATIONS IN DEVELOPMENT ACCOUNT FOLLOW  
INCREASED EMPHASIS ON AGRICULTURE AND RURAL DEVELOP-  
MENT OUTLINED IN SESSIONAL PAPER NO. 4. MAJOR  
INCREASES (IN MILLIONS OF DOLLARS): MINISTRY OF  
WATER DEVELOPMENT 25.2, MINISTRY OF FINANCE 14.0  
(PRIMARILY TO FINANCE NEW FERTILIZER PLANT),  
MINISTRY OF COMMERCE AND INDUSTRY 14.0, AND MINISTRY  
OF AGRICULTURE 12.6. INCREASE OF \$79 MILLION IN  
RECURRENT ACCOUNT DUE TO HIGHER WAGES AND PRICES  
WHICH REPRESENT NO REAL INCREASE.

5. MAJOR TAX CHANGES IN BUDGET PROPOSAL: (A) INCOME  
TAX: (1) FROM JAN. 1, 1975, CORPORATE CAPITAL GAINS  
TAX AT SAME RATE AS CORPORATE INCOME TAX. REVELNUE  
GAIN \$5.6 MILLION; (2) FROM JAN. 1, 1975, NINE PER-  
CENT INVESTMENT DEDUCTION FOR NEW BUILDINGS AND  
MACHINERY WILL BE RESTRICTED TO RURAL AREAS. NO  
REVENUE ESTIMATE. (3) FORM JAN. 1, 1975, INVEST-  
MENT DEDUCTION WILL BE ALLOWED FOR PURCHASE OF  
SECOND-HAND SHIPS. NO REVENUE ESTIMATE. (4) FROM  
JUNE 13, 1975, 20 PERCENT WITHHOLDING TAX ON NON-  
RESIDENT ENTERTAINERS. REVENUE GAIN \$84,000.  
(5) FROM JUNE 13, 1975, 15 PERCENT WITHHOLDING  
TAX ON COMMISSIONS BY INSURANCE COMPANIES TO  
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PAGE 03 NAIROB 04934 132005Z

RESIDENTS OF KENYA. REVENUE GAIN \$196,000. (6)  
FROM JUNE 13, 1975, CAPITAL GAIN TAX FOR INDIVIDUALS  
ON TRANSFER OF PROPERTY OR SHARES AT 15 PERCENT OF  
TOTAL SALE VALUE OR 35 PERCENT OF DEMONSTRATED  
PROFIT, WHICHEVER RATE IS LESS. REVENUE GAIN \$2.8  
MILLION. (B) EXCISE TAX: EXCISE TAX ON BISCUITS  
(COOKIES IN AMERICAN ENGLISH), SOFT DRINKS AND  
MATCHES REPEALED FROM JUNE 13, 1975. REVENUE LOSS

\$3.4 MILLION. (C) CUSTOMS TARIFF: (1) TEN PERCENT DUTY ON WIDE RANGE OF RAW MATERIALS AND CAPITAL GOODS WHICH WERE DUTY FREE. REVENUE GAIN \$14.7 MILLION. (2) HIGHER DUTY ON PETROLEUM PRODUCTS. REVENUE GAIN \$15.4 MILLION. (3) AVIATION FUELS USED BY AIRCRAFT OTHER THAN THOSE BELONGING TO INTERNATIONAL AIRLINES SUBJECT TO NORMAL PETROLEUM DUTIES FOR FIRST TIME. REVENUE GAIN \$1.4 MILLION. (4) INCREASE IN DUTIES ON WINES AND SPIRITS. REVENUE GAIN \$280,000. (5) DUTY ON CLOTHING RAISED FROM 45 TO 50 PERCENT. REVENUE GAIN \$560,000. (6) DUTIES ON LARGER (1500 CC OR LARGER) PASSENGER CARS RAISED, E.G., CARS BETWEEN 1500 CC AND 1750 CC DUTY RAISED FROM 55 TO 60 PERCENT, CARS OVER 2250 CC DUTY RAISED FROM 100 TO 150 PERCENT. (D) SALES TAX: (1) EXEMPTION CERTIFICATES NO LONGER ISSUED TO MANUFACTURERS TO PURCHASE TAXABLE GOODS FREE OF TAX. MANUFACTURERS WILL HAVE TO APPLY FOR REBATE WHEN TAX PAID ON FINAL PRODUCT. CONSIDERABLE REVENUE GAIN EXPECTED AS MUCH TAX CHEATING WILL BE ELIMINATED. (2) TAX ON BEER RAISED BY ALMOST 3 CENTS A BOTTLE. REVENUE GAIN \$8.4 MILLION. (3) CHANGED TAXATION SYSTEM ON TRADITIONAL LIQUORS. REVENUE GAIN \$140,000. (4) SALES TAX ON MANY LUXURY GOODS RAISED FROM 10 PERCENT RATE TO 20 PERCENT RATE. REVENUE GAIN \$6.0 MILLION. (5) TO IMPROVE LOT OF POORER MEMBERS OF SOCIETY, SALES TAX ON BREAD AND EDIBLE FATS REMOVED. REVENUE LOSS \$5.6 MILLION.

6. EARLY PUBLIC REACTION TO TAX PROPOSAL HAS BEEN POSITIVE; PRESS HAS LABELED IT "POOR MAN'S BUDGET" AS TAX PROPOSALS WILL HIT WEALTHIER SEGMENTS OF SOCIETY. EMPHASIS PUT ON AGRICULTURE AND RURAL UNCLASSIFIED

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PAGE 04 NAIROB 04934 132005Z

DEVELOPMENT IN SESSIONAL PAPER NO. 4 IS CARRIED OUT IN TAX PROPOSALS AS WELL AS BUDGET EXPENDITURES. INCREASED IMPORT DUTIES AND SALES TAXES WILL CONTRIBUTE TO REDUCTION OF IMPORTS WHICH ALSO MAJOR GOAL OUTLINED IN SESSIONAL PAPER.

7. COPIES OF BUDGET WILL BE SENT TO WASHINGTON USERS UNDER CERP PUBLICATIONS PROGRAM.  
MARSHALL

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## Message Attributes

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